

# **Final Audit Report of the auditor-general to the Northern Cape Provincial Legislature and the council on ZF Mgcawu District Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the ZF Mgcawu District Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the ZF Mgcawu District Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matter matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

8. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the ZF Mgcawu District Municipality, and for the year ended, 30 June 2015.

### Going concern

9. The Statement of Financial Performance indicates that the ZF Mgcawu District Municipality incurred a net loss of R 2 591 773 during the year ended, 30 June 2016 and, as of that date, the municipality's current liabilities exceeded its current assets by R8 514 235. These conditions, along with other matters as set forth in note 47, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## **Additional matter**

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unaudited supplementary schedules

11. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Objective 1: To monitor and determine the housing backlogs in the district as well as to inform the public on housing information on pages X to X
  - Objective 2: To promote environmental health and safety of communities in the ZF Mgcawu District through the proactive prevention, mitigation, identification and management of environmental health services, fire and disaster risks on pages X to X
  - Objective 3 : To promote safety of communities in the ZF Mgcawu District through the proactive prevention, mitigation, identification and management of fire and disaster risks on pages X to X
  - Objective 4 : To facilitate the development of sustainable regional land use, economic, spatial and environmental planning frameworks that will support and guide the development of a diversified, resilient and sustainable district economy on pages X to X
  - Objective 5 : To market, develop and co-ordinate tourism in the ZF Mgcawu District on pages X to X
  - Objective 6: To assess and monitor the status of infrastructure needs and requirements of B-Municipalities on pages X to X
15. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.

16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not identify material findings on the usefulness and reliability of the reported performance information for the following objectives:
- Objective 1: To monitor and determine the housing backlogs in the district as well as to inform the public on housing information
  - Objective 2: To promote environmental health and safety of communities in the ZF Mgcawu District through the proactive prevention, mitigation, identification and management of environmental health services, fire and disaster risks
  - Objective 3: To promote safety of communities in the ZF Mgcawu District through the proactive prevention, mitigation, identification and management of fire and disaster risks
  - Objective 4: To facilitate the development of sustainable regional land use, economic, spatial and environmental planning frameworks that will support and guide the development of a diversified, resilient and sustainable district economy
  - Objective 5: To market, develop and co-ordinate tourism in the ZF Mgcawu District
  - Objective 6: To assess and monitor the status of infrastructure needs and requirements of B-Municipalities

## **Additional matters**

18. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters:

## **Achievement of planned targets**

19. Refer to the annual performance report on pages X to X for information on the achievement of the planned targets for the year.

## **Adjustment of material misstatements**

20. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of :
- Objective 1: To monitor and determine the housing backlogs in the district as well as to inform the public on housing information
  - Objective 2: To promote environmental health and safety of communities in the ZF Mgcawu District through the proactive prevention, mitigation, identification and management of environmental health services, fire and disaster risks

- Objective 3: To promote safety of communities in the ZF Mgcawu District through the proactive prevention, mitigation, identification and management of fire and disaster risks.
  - Objective 5: To market, develop and co-ordinate tourism in the ZF Mgcawu District
  - Objective 6: To assess and monitor the status of infrastructure needs and requirements of B-Municipalities
21. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

## Unaudited supplementary schedules

22. The supplementary information set out on pages X to X does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

## **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

## **Internal control**

24. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the adjustment of material misstatements in the annual performance report.

## **Leadership**

25. Management did not sufficiently exercise their oversight responsibility in regards to reporting on pre-determined objectives, resulting in material corrections made on the annual performance report.

## Performance management

26. The annual performance report was not adequately prepared and reviewed by senior management.

Kimberley

30 November 2016



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*